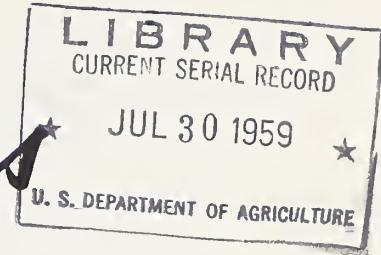


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Milk Distributors



Sales and Costs

January-March 1959

U. S. DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service
Marketing Research Division

Fluid Milk Processing-Distributing Firms

**NET SALES, COST OF MATERIALS,
AND GROSS MARGIN**

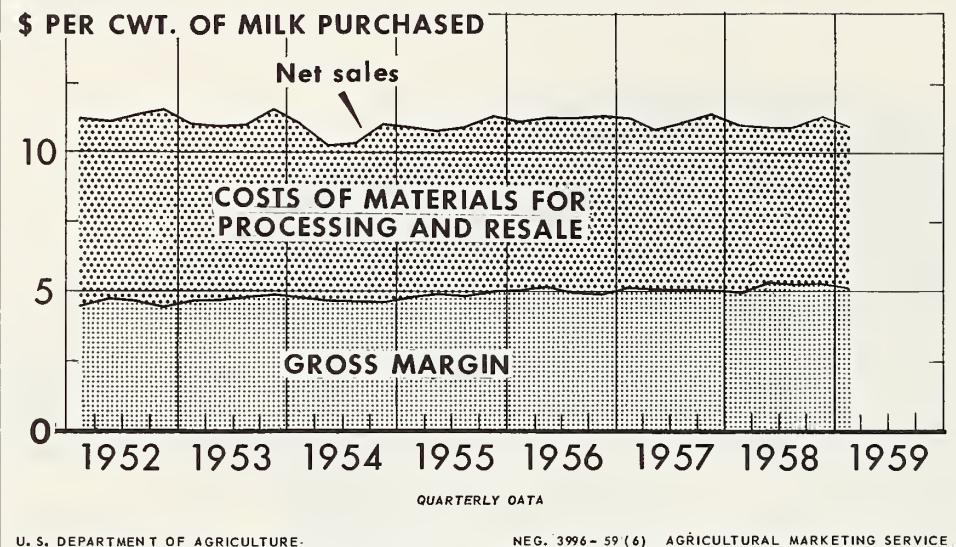


Figure 1

Fluid Milk Processing-Distributing Firms

OPERATING COSTS

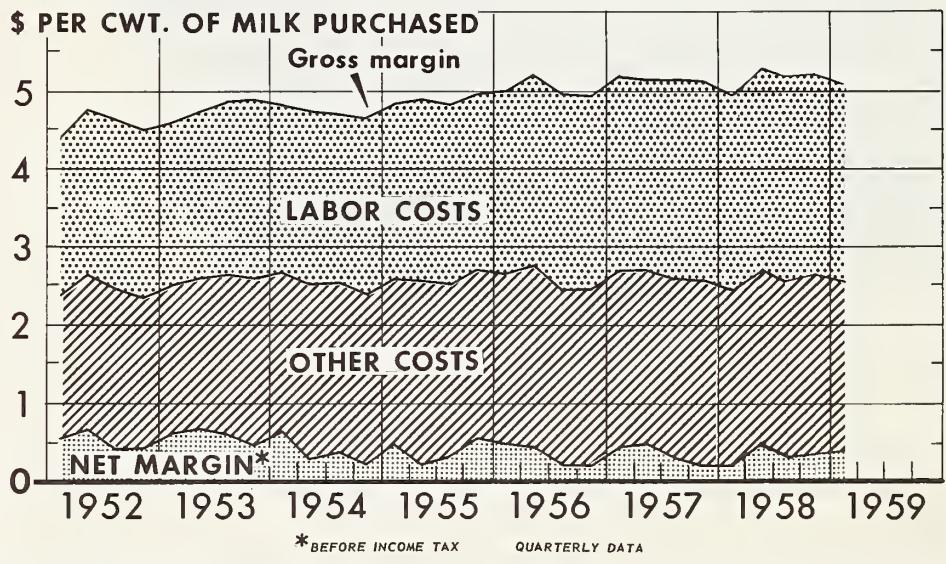


Figure 2

MILK DISTRIBUTORS' SALES AND COSTS
January-March 1959

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Marketing Research Division
Agricultural Marketing Service

: This report is the current issue of a series based upon :
: information obtained from distributors of fluid milk and :
: cream products. These distributors are subscribers to a :
: cost comparison service which furnished the Department :
: with tabular data for analyses. A uniform accounting :
: system is used, and information is given on standardized :
: forms. Data reported include: Costs and quantities of :
: raw milk and other raw materials; prices and quantities :
: of products sold; and operating costs. :
:
: The firms selected are privately owned, and chiefly single- :
: plant firms. In these characteristics they are considered :
: to be typical. Very small firms, very large firms, national :
: chains, and producer-distributors are not included. :
:

SALES AND COSTS

In January-March 1959, average sales value received by milk distributors per 100 pounds of milk and cream processed continued the slight downward trend of the last 3 years.

At the same time, total operating costs of distributors declined more than seasonally. Costs for raw milk and cream and other raw materials purchased for processing and for resale were 19 cents per 100 pounds below last year (fig. 1). Thus, the average net margin of distributors--the remainder for payment of income taxes and return on investment--was up from the previous quarter and from the same quarter of 1958.

Value of Sales

Distributors received an average of \$10.93 per 100 pounds of milk and cream processed in January-March 1959 (table 1). As an average for all products, this was 35 cents per 100 pounds lower than the previous quarter and, except for 1955, was the lowest price received in any first quarter since 1951.

Milk distributors are selling an increasing proportion of their product in multiple-quart containers and to wholesale outlets. The per quart price of milk in multiple-quart containers is less than the single quart price and

Table 1.--COSTS AND MARGINS FOR SELECTED DAIRY FIRMS: Per 100 pounds of milk and cream processed, for years 1952-58, and for the 5 most recent quarters

Account	Yearly average					1958					1959				
	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.
Net sales	11.32	11.12	10.69	10.95	11.22	11.15	11.05	11.01	10.96	10.95	11.28	10.93			
Cost of raw materials:															
Raw milk and cream	5.85	5.43	5.07	5.12	5.30	5.14	5.04	5.22	4.81	4.90	5.24	5.07			
Other .....	.86	.90	.87	.93	.88	.87	.84	.82	.87	.87	.82	.78			
Total	6.71	6.33	5.94	6.05	6.18	6.01	5.88	6.04	5.68	5.77	6.06	5.85			
Gross margin	4.61	4.79	4.75	4.90	5.04	5.14	5.17	4.97	5.28	5.18	5.22	5.08			
Operating cost:															
Salaries, wages, and commissions 1/	2.15	2.19	2.21	2.28	2.43	2.50	2.56	2.51	2.56	2.59	2.57	2.54			
Containers .....	.60	.62	.65	.70	.72	.71	.70	.70	.70	.71	.71	.67			
Operating supplies .....	.30	.32	.35	.32	.28	.29	.29	.30	.29	.29	.30	.29			
Repairs, rent and depreciation .....	.50	.52	.57	.60	.64	.67	.68	.66	.67	.69	.67	.64			
Taxes .....	.06	.06	.06	.06	.05	.06	.06	.06	.06	.06	.06	.06			
Insurance .....	.02	.02	.03	.04	.04	.04	.04	.04	.04	.05	.04	.04			
Services .....	.16	.19	.19	.18	.17	.17	.17	.15	.17	.19	.17	.15			
Advertising .....	.15	.15	.16	.18	.19	.18	.18	.17	.19	.18	.19	.17			
General .....	.15	.13	.13	.14	.16	.15	.16	.15	.15	.15	.18	.15			
Total	4.09	4.20	4.35	4.50	4.68	4.77	4.84	4.84	4.84	4.89	4.89	4.71			
Net margin 2/ .....	.52	.59	.40	.40	.36	.37	.33	.23	.44	.29	.33	.37			
Firms reporting	43	51	75	83	80	80	80	80	80	80	80	80			

1/ Includes State unemployment, Federal old age, workmen's compensation, and employee benefits.

2/ Net returns to owners before income taxes.

wholesale prices are less than retail prices. This accounts for the fact that the amount received by distributors is less, in spite of the fact that single quart prices have gone up.

Except for normal seasonal variation, the prices received by the distributors have remained quite stable.

Cost of Goods Sold

In the first quarter of 1959, distributor's cost of goods sold was \$5.85 per 100 pounds of milk and cream processed--4 percent below the same quarter of 1958 and 16 percent below 1952. Most of this decline has been in the distributor's costs for raw milk and cream which, at \$5.07 per 100 pounds in January-March 1959, was the lowest of any first quarter since this series began in 1952. Cost of other raw materials purchased for processing and for resale have also gone down.

Gross margin--amount received less cost of goods sold--was 46.5 percent of value of sales in January-March 1959. This was 1.3 percentage points higher than the first quarter's gross margin of 1958 and 6.7 percentage points higher than the same quarter of 1952.

Operating Costs

Operating costs of fluid milk distributors were \$4.71 per 100 pounds of milk and cream processed in the first quarter of 1959--down \$0.18 from the previous quarter and \$0.02 from the first quarter of 1958. This was a more than seasonal decline and also was the first year-to-year decline in the 7 years covered in these reports. Improved dairy plant technology and increases in volume of product handled are probably mainly responsible for the lower operating costs.

All major elements of costs were lower than the previous quarter and all except labor were lower than a year earlier. Container costs, at \$0.67, were the lowest in 4 years--probably reflecting the shift toward dispenser cans and larger sizes of glass and paper containers. Operating supplies at \$0.29 were very near the level of the past 2 years. Rent, repairs, and depreciation costs at 64 cents in the first quarter of 1959, were about 3 percent less than a year earlier and were the lowest since 1956. Salaries, wages, and commissions have been increasing every year and in the first quarter of 1959 these costs were down seasonally but, at \$2.54, were \$0.03 above the same quarter of 1958. Other costs did not change materially.

The net margin (before income taxes) of \$0.37 in January-March 1959 was up 11 percent from the previous quarter and more than 50 percent from the very low level of January-March 1958. Net margin was 3.5 percent of

sales value as compared with the first quarter's low of 2.3 percent in 1958 and the high of 5.9 percent in 1954.

PROCESSING COSTS

Processing costs for fluid milk distributors have varied considerably during the 3½-year period, July 1955-December 1958; the level was about the same at the end as at the beginning (table 2). Increasing prices paid for equipment and supplies and increasing rates paid for labor have generally offset improved processing methods. During this period, costs increased 18 percent for glass bottles and 8 percent for paper cartons; wage rates for plant workers went up 23 percent.

General Processing

General processes, common to all products, were receiving and storing raw milk, separating, pasteurizing, and homogenizing. Costs of general processing have averaged about a half cent per pound during the period; they were a little higher in 1957 but were a little lower in 1958. Costs were generally stable over this period but were consistently about 10 percent higher in the April-June quarter than in the October-December quarter. These seasonal variations were probably related to volumes processed and to product mix.

Glass Bottle Processing

Those processes directly associated with packaging fluid milk and cream into glass containers were handling, storing, and washing bottles and cases; filling, casing, and moving into the cold room. Distributors' costs for these processes have averaged slightly less than 1 cent per pound resulting primarily from the substantial increase in the cost of glass bottles. Seasonally, the costs have been considerably higher in the spring and summer months.

Paper Carton Processing

Processes directly associated with packaging fluid milk and cream in paper containers were: Handling and storing carton stock and cases, filling casing, and moving into the cold room. These costs have averaged a little less than 1.40 cents per pound. During the 3½-year period studied there appears to be no evidence of a trend or seasonal pattern.

Table 2.--Processing costs per pound for fluid milk distributors: General processing, glass container processing, and paper container processing. 1/

Quarter	General	Glass bottle	Paper carton	Total glass	Total paper
	2/	3/	4/	processing	processing
	Cents	Cents	Cents	Cents	Cents
1955					
July-September ...:	.51	.94	1.35	1.45	1.86
October-December ..:	.48	.93	1.41	1.41	1.89
1956					
January-March:	.49	.86	1.39	1.35	1.88
April-June .......	.54	.95	1.40	1.49	1.94
July-September ...:	.50	1.02	1.36	1.52	1.86
October-December ..:	.48	.93	1.41	1.41	1.89
1957					
January-March:	.52	.89	1.43	1.41	1.95
April-June .......	.53	.96	1.41	1.49	1.94
July-September ...:	.54	.98	1.36	1.52	1.90
October-December ..:	.51	.92	1.42	1.43	1.93
1958					
January-March:	.50	.97	1.38	1.47	1.88
April-June .......	.52	1.00	1.37	1.52	1.89
July-September ...:	.50	1.01	1.40	1.51	1.90
October-December ..:	.45	.98	1.34	1.43	1.79

Weighted average for quarters (1956-58)

January-March:	.50	.90	1.40	1.40	1.90
April-June .......	.53	.97	1.39	1.50	1.92
July-September ...:	.51	1.00	1.37	1.51	1.88
October-December ..:	.48	.94	1.39	1.42	1.87

1/ Processing costs include labor, facilities and equipment, supplies, purchased services, taxes, and containers.

2/ Receiving, separating, standardizing, pasteurizing, and homogenizing.

3/ Handling, storing, and washing bottles and cases; filling bottles, casing, and moving to cold room.

4/ Handling and storing cartons and cases, filling cartons, casing, and moving to cold room.

Total Processing Costs

Total costs for processing fluid milk into glass containers have averaged 1.46 cents per pound; they have trended upward and show a seasonal pattern. Total costs for processing fluid milk into paper cartons have averaged 1.89 cents per pound; there appears to have been no trend or seasonal pattern during the $3\frac{1}{2}$ -year period.

Some limited comparisons may be made between glass bottle and paper carton costs. For convenience, comparisons are made in terms of half-gallon equivalents (4.3 pounds of milk). In 1958, processing costs for half-gallons of milk were 6.34 cents in glass, and 8.02 cents in paper. Total processing and delivery costs (Milk Distributors' Sales and Costs-8) of a half-gallon of milk in glass sold at retail (home delivery) was 18.84 cents in 1958. Comparable costs for a half-gallon in paper sold at wholesale was 13.67 cents.

Comparison of Processing Costs Among Firms

In October-December 1958, 61 of 80 firms surveyed processed milk into both glass bottles and paper cartons, 7 into glass only, and 12 into paper only. For general processing costs per pound of product varied from 0.22 cent to 1.15 cents; for glass processing from 0.37 cent to 2.71 cents; for paper processing from 0.95 cent to 3.55 cents. The total processing costs ranged from 0.59 cent to 3.75 cents for glass and from 1.40 cents to 4.07 cents for paper.

July 1959

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